

CROSSROADS
IN
INTERNATIONAL ECONOMIC
POLICY



LAMAR FLEMING, JR.
Houston, Texas

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A few of us think we understand a little of Economics, but it is a Science that most Americans neglect, know little about, and pay little attention to. Only a few realize that it is a major Science, with inexorable patterns of cause and effect, demonstrable by recurrence over and over again in the past. As our system of government becomes more and more an *absolute* democracy, in which one more vote than half can decide the issues, popular economic illiteracy becomes frightening, particularly when we consider that most of the principal political issues are in the area of Economics and of harmony or conflict with Economic Law.

This reposes a grave responsibility in those who know a little Economics, like me, and those who know the Science profoundly, like many of you. It is our responsibility to do whatever we can toward acquainting our countrymen with Economic Law, and its inexorability, and the futility of conflict with it, and to warn them when we see danger of collision of our public policies with it.

I am going to discuss economic inter-action across borders and oceans — as it affects development of resources and wealth, as it has affected postwar rehabilitation of the West European and Japanese economies, and as it may affect the development of economies still in their early stages. I also will discuss the relation of expanding trade to expanding economies and the essentiality of sound currency to both these expansions.

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The normal condition of a nation's international transactions is for the components of them — external trade in goods and services, loans, and investments, taken together — to be in approximate balance.

A nation with an advanced economy and abundant savings generally exports more than it imports, and balances the account by making loans and investments abroad. A nation whose economy is in an early stage of development and whose own savings are not

enough to finance its rate of development, normally seeks loans and investments from abroad, until it develops enough production to export more than it imports. Then the excess of exports provides funds to service these loans and investments and to finance further development.

In the old days, when most currencies were redeemable in gold, a nation in deficit in the aggregate of its trade, loan, and investment accounts, had to balance the deficit in one of three ways, until it overcame it. It increased its external borrowings, usually paying higher interest rates to attract foreign money; or it shipped gold. If its foreign credit and gold became exhausted, it simply had to retrench.

I have used the word *nation* to signify the aggregate of the citizens of a nation, not its government. The governments of Europe did not make the loans or investments that helped us develop our resources. European individuals with savings made the investments; and they and European banks, with whom their savings were deposited, made the loans. Their incentive to make the investments was profit; to make the loans, it was the rate of interest and confidence in repayment. Anyhow the by-effect was to permit a more rapid development of American natural resources than would have been possible if the development had had to wait for accumulation of enough American savings to finance it alone. So, in the early stages, Americans pushed their economic development faster than and ahead of their own savings.

This does not belie the axiom that it is only from prior earnings and savings that development of new wealth can be paid for. Until American savings caught up with American development, toward the end of the last Century, our forefathers supplemented their own savings by use of the savings of foreigners, paying rent for them. This accounted for the unprecedentedly rapid development of the resources and economy of our Country during the 19th Century, as also of Canada, Australia, and South Africa. Development of economies progressed everywhere, though less rapidly in countries less attractive to loans and investments because of less political and social stability or less favorable records of meeting obligations.

All this added tremendously to the World's enjoyable wealth.

We can identify some of the ingredients which made the remarkable progress of the last Century possible.

Peace of course was the greatest of them. There was more peace in the hundred years between Waterloo and World War I than in any previous century.

With peace came a great upsurge of the Industrial Revolution and rapid liberalization of trade. Peace and the emergence of most of the Western Hemisphere from colonial status removed the old Mercantilist throttling of colonial trade with countries other than the Mother Country and set the stage for the Industrial Revolution. The Industrial Revolution started an age of ever-increasing specialization, hence of progressively more abundant and varied products and expanding trade. Specialization vaulted over boundaries and oceans — putting soils, climates, other resources, and people to more fruitful uses — greatly increasing World trade. The British adapted their policies to this expansion by embracing Free Trade. They flourished under it, and their example influenced most of the major countries to forsake the old isolationist Mercantilism for greater trade liberalism.

A most important ingredient was a regime of trustworthy currencies, redeemable in gold. When Europeans loaned money here or in other stable foreign countries, they counted on being repaid in gold or something they were willing to take in place of gold.

The century between Waterloo and the First World War was the Golden Age, in more ways than one.

This era ended with a destructive and exhausting war and a bungling of the Peace-making, then a destructive reversion to isolationism by a United States that had waxed bigger in power than in wisdom, and then a destructive depression, followed by the most destructive and exhausting war of all time. In the course of these disasters, no major foreign government succeeded in maintaining the value of its currency or the redeemability of it in gold; and our Government reduced the gold content of the dollar, revoked the gold redeemability of it domestically, and prohibited payment of private debts in gold.

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The Second World War left most of Europe in shambles, its peoples exhausted and impoverished, disillusioned and confused. It left Japan in even worse shape.

The United States had been free of invasion and warlike destruction through both wars. As the safe arsenal for ourselves and

our allies, we had expanded our productive capacities tremendously, adapting them more and more to mass production, specialization, and technological innovations. As the repository safest from attack, we had become the banking center of the World and the principal place for deposit of foreign citizens' and governments' reserves. So American power, production, and wealth had become great, at a time when Europe and Japan were in dire want and agony.

The peoples of Europe and Japan needed food, rehabilitation, and reconstruction. It was not a need like our development needs of the 19th Century. Our forefathers could have waited, gone a little slower, had it been necessary. These people needed food at once, needed to survive the winter, and needed to rebuild their cities, factories, and communications. Their currencies had lost intrinsic worth, had only the *fiat* value determined by fixed prices at which they were exchangeable by government order for the meager availabilities of rationed food and goods, orders which not always were enforceable. They had nothing of consequence to exchange for imported food or goods; and much of their means of production had been destroyed or converted from useful productions to warlike productions. Their own needs pre-empted the production they could improvise in any nearby future.

These were circumstances to repel private foreign lenders and investors. Who would lend to a borrower who had not the visible means to sustain himself through the winter, to say nothing of saving up enough to repay the loan, nor the means of producing and selling enough to repay it? Who would lend or invest good money, to receive currencies whose only value rested on government *fiat*? There simply was no hope that these urgent and extraordinary needs could be coped with through voluntary private loans and investments.

In these circumstances our Government, supported by the People, embarked into an adventure unprecedented in History — through the so-called Marshall Plan and its successors. It furnished foreign governments the help necessary to keep their peoples alive during rehabilitation and reconstruction, and to get the rehabilitation and reconstruction under way and moving forward until local energies regained the strength to keep them going.

This was a radical departure. In substance it meant that the personal savings, which you and I would not have loaned or invested for this purpose, were taken from us in taxes and spent for the purpose by our Government. And we approved it, re-electing most of the men who voted for the legislation involved.

In a task so gigantic and urgent, there were bound to be mistakes and bungling. A vast staff, gotten together hurriedly, at Government rates of pay, was bound to include individuals of mediocrity and incompetence, along with others of dedicated ability, many of whom left much more remunerative and pleasant occupations, purely out of the desire to serve Mankind.

Whatever the criticisms or their merit, the test of this program is the accomplishment. It has made it possible for the peoples of Western Europe and Japan to emerge from starving and shelterless frustration to self-reliance and self-support, to rebuild and renovate their cities, factories, and communications, to achieve per-capita productions and consumptions greater than they ever had before, to restore stable values for most of their currencies and practically complete convertibility of them, and to bring their free civilizations safely through internal agonies and external intimidations. They no longer are poor relatives, for us to support; they now are sturdy comrades, to share burdens and struggles with us in common cause.

Our help was instrumental also in bringing about closer co-operation between these countries, through such joint programs as the European Payments Union and GATT, and in hastening the mitigation of barriers to trade between them and with other nations. It was instrumental in development of the European Common Market, through which France, Germany, Italy, Holland, Belgium, and Luxembourg will enjoy Free Trade between themselves within 12 or 13 years, as we do between our 49 States. It has been instrumental in creating the prospect of a wider European liberalization of trade, possibly to include the remaining OEEC countries — England, Ireland, Sweden, Norway, Denmark, Iceland, Switzerland, Austria, Portugal, Greece, and Turkey — in some kind of affiliation with the Common Market. The drawing together of these countries in these ways cannot but contribute to peace and co-operation among them — perhaps eventually to federation and the strength and security that would ensue from it. Already most of them are drawn together, along with our Country and Canada, in the NATO alliance.

By sponsoring and contributing liberally to the International Monetary Fund and the World Bank, we helped to make a return to monetary and trade orthodoxy attainable by nations willing to accept the reasonable self-disciplines required.

We now have finished, or almost finished, the costly task of helping the Western European countries and Japan back to their feet. Their economies again are sound. Most of their currencies are

sound, and the weaker of them are becoming sounder. There is little need, if any, of further injection of U. S. public funds into their economies, except to the extent needed to help them maintain the kind of military establishments required for their and our common security.

Except for contributions of U. S. public funds for military purpose, henceforth the financial transactions of the United States with Western Europe and Japan will be of private U. S. citizens with private citizens of the respective countries, which means a return to normal.

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However, as the European and Japanese economies have progressed to the point where more ample local savings and private U. S. capital can once again be drawn upon, we have been confronted by the needs of other economies into which private capital cannot realistically be expected to move, and by the question whether and to what extent the maturer economies should assist with public funds.

The peoples concerned aspire to more rapid development of their resources than they can finance by their own means. In most cases, their difficulties are complicated by developments already undertaken on a scale that turns out to be beyond their means, creating fiscal deficits and balance-of-payments deficits. In some cases, the standards of fiscal responsibility are low or have deteriorated. Some of them are recently emerged from colonial or dominion status and, due to the withdrawal of the European civil servants who heretofore guided their public affairs, are suffering from lack of public officials trained and experienced in government and public finance.

In many of these countries, the values of the currencies have been volatile. In many of them, there are restrictions on remittances to other countries and records of almost capricious changes in them.

In some of them, expropriations, or forced sales for token compensation, are matters of recent memory, connected with land reforms or nationalization of foreign-owned properties. In some of them, nationalism and resentment of foreigners are a serious factor. In some, the existing political order walks a tightrope of uncertainty.

These are circumstances which repel the individual foreigner from offering loan or investment funds; so that the rate of development at this stage depends in large measure on the availability of public funds, local and from abroad.

I think we should take a very hard look at this.

To save Western Europe and Japan from hunger and chaos and help them become self-reliant and self-supporting partners with us for conservation of peace and civilization, the American People permitted their Government to tax away an extraordinary portion of their earnings and savings, to be given and loaned, mostly given, to the foreign governments — friend and former foe alike. This was an act of unprecedented and astonishing magnanimity, and it succeeded in its purpose; so that we can look back on it with justified pride.

It was unprecedented and astonishing because, until then, raising funds to assist economies beyond a government's political jurisdiction in time of peace had not been accepted as grounds for taxation. The extenuation was that the assistance was needful to accomplish the purpose of the War just fought — restoration of real peace and preservation of civilization — that it was just as needful as had been the spending of lives and materials on battlefields.

Under ordinary conditions the use of your savings and mine, except for equitable contributions to the cost of Government, is a matter for you and me to decide, a decision we do not surrender to Government. I believe too that we and the members of other free economies consider that private banks, investors, and businessmen generally can lend and invest abroad more efficiently and with more ultimate benefit to the economies of the host countries than can government. I am sure our inclination would be to follow these precepts, except in the presence of utterly compelling extenuating circumstances.

Let us consider what the circumstances are in some types of cases.

Consider the case of an almost aboriginal country, just emerged from colonial status, no doubt prematurely. Had it remained a colony, the Mother Country presumably would be financing and directing the development of roads, ports, schools, hospitals, and so on; and private foreign investors would be developing natural resources, relying on the Mother Country to assure them equitable treatment. Now there is no Mother Country to develop the public services and administer justice. Likely there are few among the population who can read and write — fewer still capable of administration as we know it.

A country in these conditions does not attract voluntary private lending or investment from abroad. If it receives no financing from abroad, development will lag and perhaps come to a standstill, and development already accomplished may be lost. This would deprive Civilization of use of the country's undeveloped resources. Frustration and despair might impel the people of the country to affiliation with the opponents of free civilization—a consideration whose pertinence varies with distance from the Totalitarian Bloc.

In countries of these categories, and countries still of feudal and quasi-feudal organization, there is ardent demand for accelerated improvement in standards of living—more ardent than ever before, because the revolutionary progress in communications makes the populations more conscious of the things that more fortunate peoples enjoy and they are missing. In the newly independent countries, the pride of new equality of legal status with the peoples of the countries which formerly had ruled them, and the desire to assert it, add to the impatience to catch up with the higher standards of living elsewhere. With only hazy knowledge of the blessings of more advanced economies, some of these populations tend to be impressed particularly with those that are spectacular and striking, such as great power plants, great steel plants, and so on, even though their more urgent needs may be public services like roads, communications, schools, sanitation, and hospitals.

Craving for betterment is the motive power of human progress; and we must sympathize with it, indeed welcome it, wherever found. On the other hand, it would be futile and also irresponsible for us to encourage it along ill-chosen paths and priorities and at paces not realistically sustainable.

Nature's patterns are not accidents. Progress in Nature evolves, rather than exploding. A nuclear physicist might question this statement, but until man displays the wisdom and goodness to make gentler use of the discovery of nuclear power than he has made of the discovery of gunpowder, how can we be sure whether the progress he asserts will be toward human betterment—or oblivion? This leads to a most important truth. Material development is useful to the extent that people develop themselves to use it for good purpose. Little would be accomplished by building a steel plant before a people were ready to run it and use its products, or a power plant before they were ready to use the power.

Some argue that we should assist projects, even of uncertain economic soundness or timeliness, lest Russia undertake them and

thus spread her influence. In my judgment this would put us into competition with Russia in a game for which her Totalitarian order has the advantages — particularly the advantage of controlling all savings and being able to direct them in any direction. To compete with her on those terms, we would have to borrow at least part of her Totalitarian order. If the criterion were of competition with Russia, I think the West would be wiser to choose a game in which their personal freedoms are an advantage. I wonder anyhow what surplus the Russians really have for ventures of this kind and how willing they are to spare it from their own internal development.

I do not like to regard contributions to development of other economies as competition with Russia, or any other nation. I think the criteria of judgment should be the benefit to Mankind through making more enjoyable goods available to the Race in general, the benefit to ourselves economically, and the benefit to both in conserving and furthering peace and civilization. I do not believe there is incompatibility between these objectives. I would be glad to see the Russians included among the ultimate beneficiaries; because I believe evolution ultimately will change their order to something happier and gentler and easier to get along with.

The extenuating circumstance which I envisage, to justify our Government in taking our savings from us in taxes and using them for foreign development, is the *needfulness of the action for the security of the United States*.

The events in Egypt several years ago may serve as an example. A control of the Suez Canal inimical to our friends in Europe would have threatened their supplies of Persian Gulf oil, which for them are an absolute need. Our security requires a strong and healthy Western Europe. If, after the Egyptians took over the Canal, we had helped to finance their purchase of the Canal Company stock and had taken a pledge of the Canal revenues as security for that loan and for a further loan for construction of the Aswan Dam, I believe our action would have been based on extenuating circumstances of the appropriate kind.

Then we must consider what circumstances there are to warrant government use of private savings in the cases of developments with remote security impact, in under-developed areas.

Certainly this is a grave problem in countries newly released from colonial status, particularly those in the earliest and early stages of development. Independence may deny the peoples involved the economic progress which would have occurred with the aid of

their Mother Countries, were there still Mother Countries, unless the aid still is available from these and other sources. This also would deny the rest of the World the goods that would have come from these areas with the development of their resources. So there is a kind of global interest in this development.

I do not believe though that the tasks involved can be or should be taken on by the United States Government alone. I think we would be guilty of the conceit of over-estimating our own wealth and capacity. Our fiscal deficit should remind us that they are not unlimited. I think also that it would be a mistake for the U. S. Government, operating singly, to become heavily committed in financing internal development of other countries, with the virtual certainty that somewhere down the line this would involve us in matters of internal order, and lead to discord and bad feeling. If tasks of this kind are to be undertaken, I think the undertaking should be by an international agency, supported and directed by the governments of the principal free economies. The undertaking would benefit then from the experiences of many nations, some of them more experienced than we, and the cost would be more broadly distributed. In disputes with debtor countries, our side would be a team of many nations, carrying more weight than a single nation. The arguments would be more professional and less political. The opprobrium arising from disputes would be less than if there were a single creditor — anyhow the United States alone would not be the sole target.

Even by such a joint agency, I believe undertakings of this kind, if undertaken at all, should move more deliberately and modestly than some proponents of development aid propose.

Among the contingencies in which U. S. public funds are being used for foreign aid, are assistance to governments in balance-of-payments difficulties. In the main this assistance is given by the International Monetary Fund, and to some extent by the Export-Import Bank and by Treasury credits.

I believe this kind of assistance is sound in principle; but I think we should stick to the principle that the aid is transitory, to bridge a gap until the debtor country can regain its payments balance. If a country becomes chronic in fiscal and payments deficits, I think we should turn off the tap. Otherwise, the drain could become too great.

This concludes my discussion of foreign aid — historical so far as Europe and Japan go — and of today and tomorrow for other countries of less mature economies. The aid to Europe and Japan

lasted a long time but still was transitory, and it accomplished its great purpose. The direct aids being considered now are of kinds which, once started, might be of indefinite duration. In my opinion their potential accomplishment is nowhere near as great as that of the indirect help which we could give the whole World *simply by adjustment of our trade policies — involving no contribution of Government funds, and redounding, I am convinced, to the economic benefit of our own People. And trade is the game in which our personal freedoms are of greatest advantage.*

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The most effective and sustainable help which the advanced economies of the United States and Western Europe and Japan can give to the countries craving rapid development and the countries in balance-of-payments difficulties is to do more trade with them — furnish them more things and buy more things from them. If we and others furnish them more, their standards of living will rise. If we and others buy more from them, we will help their balances of payments and help them earn funds for development. If in these ways we help make their economies more comfortable, this itself will help them achieve the kind of order and attitude that attracts voluntary private loans and investments from abroad. The end-result would be that private citizens of the advanced economies, rather than their governments, would be contributing to the financing and planning and direction of development of the resources and economies of these countries. The profit motive of private lending and investing would be an influence for selection of undertakings that are sound, needful, and timed to synchronize with the development of the local peoples themselves and of their public services.

How are we to do more trade with them?

Consider the European Common Market. Within a few years it will bring about Free Trade between its six European members and the dependencies of France, Belgium, and Holland in other continents. Those outlying dependencies are typical of the under-developed economies which we have been discussing. Their trade will expand as they gain the same access to the markets of all six Common Market countries as to the market of the single Mother Country. This will draw increasing credit and investment from the citizens of all the Common Market countries.

Now suppose all the other OEEC countries, Britain, Ireland, Sweden, Norway, Denmark, Iceland, Switzerland, Austria, Portugal,

Greece, and Turkey, or most of them, and eventually Spain and Finland, enter into an affiliation with the Common Market. This trade area would be the greatest in economic power and creative capacity in the World.

Then suppose European statesmen of great vision invite other countries, commencing with those bordering the Eastern Mediterranean and the countries of the Middle East, to enter the new area of free or liberalized trade. Dependent as these countries are on European markets and sensing the credits and investments which this affiliation would make available, could they reject the invitation?

After that, what would check the attraction of countries of South Asia, Africa, and perhaps Latin America into this association?

The creation of the present Common Market poses problems for us. Goods of those who are not in it and subject to its rules will pay duties not paid by goods moving from one Member Country to another. The widespread building of plants in the Common Market countries and investment in existing plants there by our manufacturers is evidence of their conviction that this differentiation will constitute a real disability for American exports to the Common Market countries. If the rest of Free Europe affiliates with the Common Market, this situation will spread to all of that wealthy Continent this side of the Iron Curtain. And our difficulties in exporting will be compounded if we wall ourselves within a regime of Protectionism and high prices, while this major area of enlightened economy moves forward into Free Trade and low costs.

Very soon, the enlightened forward progress of Western Europe will compel us to a decision. The decision will be whether to join in progress and the leadership of it, or to back off into reactionary trade isolationism, take in our own washing, vegetate, and revert to a secondary and lagging stature in World affairs.

If we judged by recent headlines, we would reach a dismal prognosis of our decision. Prices generally in an upswing, general demand for higher wages, demands for protection by import quotas and otherwise, farm prices upheld by Government supports and scales of farming held down by Government edict, metals prices supported by Government impoundments misnamed stockpiling for defense, and a fiscal deficit which threatens that everything will go higher because of impairment of confidence in the currency. These are strange harbingers for liberal trade policy.

However, I believe that we Americans have reached a point where facts are beginning to jar us out of complacency and compel

more and more of us, including certainly our responsible leaders, to face the facts and attempt to cope with them.

Our record in liberal trade policy since the mid-Thirties has compared favorably with those of most other countries, up to the formation of the Common Market. Under the Trade Agreements Act, we have negotiated substantial reductions in our tariff rates, in consideration of reductions in tariffs of other countries on our goods and of their other impediments to imports. We led in bringing about the General Agreement on Tariffs and Trade, or GATT, through whose auspices further reductions of our tariffs and of the tariffs and trade restrictions of other nations have been negotiated. All the while advancing prices have been reducing the effectiveness of our fixed duties, by making them less as percentage of price.

However there has been a reluctance and churlishness in our allegiance to liberal trade and some rather glaring retreats from it — for instance in the matter of Swiss watches, lead and zinc quotas, quotas on farm products, and petroleum quotas. We have sinned against the canons of equitable international competition with our subsidies of agricultural exports. Moreover the concern of manufacturers over increasing labor costs is building up demands for greater protection.

The momentous question is whether we will face these problems with realism and understanding *and a long-range view*.

There is no doubt in my mind that the welfare of Americans of this generation and future generations will be served best if we commit ourselves to policies of progressive liberalization of trade and ultimate Free Trade. This is the path of personal freedom and the path on which the other principal nations of enlightened civilization are embarked. Only on this path can we march side by side with them, as comrade and leader in the common interest.

If we join this procession and its leadership, I think there is no question that affiliation with it will become compellingly attractive to every nation. Affiliation would assure the development of the resources of under-developed countries as fast as their peoples could learn to administer and use the resources. The concert of nations would become preponderant in the World's resources and capabilities and the mighty pillar of Peace and Civilization.

I believe the Totalitarian countries would become surrounded by societies of free prosperity and happiness, and that this would hasten the day when their peoples' cravings for more of these bless-

ings would bring them into the affiliation and compatibility with the Free World. Then we would be relieved from the crushing immensity of our defense expenditures.

What about the effects within the United States of free or freer trade, coming about gradually, as in the European Common Market?

By degrees, it would expose our industry and agriculture increasingly to the products of cheaper foreign labor. It would increase World consumption of all products. We would sell more abroad of the products of mass production and highly mechanized productions, for which we have the advantage of relatively greater working capital, and more of the kinds of agricultural produce for which Nature and our public amenities give us advantages; and we would import more of materials and products in which we are disadvantaged by scarce or expensive materials or costly labor. There would be a shift in allocation of our and all peoples' labor and capital from uses in which they are at a disadvantage to uses in which they enjoy advantage and can produce cheapest. Through this shift, many low-paid foreign workers would become useful suppliers instead of competitors, and would earn more and become better customers. Domestic consumers, including workers and owners in industry and agriculture and those occupied in services and white-collar tasks, would benefit through lower consumer prices and greater abundance, variety, and selection of goods. To the American's galaxy of personal freedoms eventually would be added the complete freedom to buy whatever he wants, wherever he finds it, without governmental interference.

The alternative is artificial bolstering of prices by tariffs, agricultural supports and restrictions (all eroding upon personal freedom), continued fiscal deficits and inflation, and high production costs, as well as estrangement from the team of nations with which we have been working so closely, and loss of leadership status.

I believe Evolution and Destiny already have made the ultimate choice for us, even though we have still to realize it. The enlightened world is moving fast toward liberalism in international trade; and we, big as we are, are not big enough to prosper except in harmony with the enlightened world. So I believe that ultimately we too will have to choose the path on which they already are embarked. The question is how long will it take us to accept Destiny's decision and how grave will be the consequences of our delay to us and the World.

I hope we will continue in loyal adherence to and implementation of the General Agreement on Tariffs and Trade. I hope we also will join the discussions between the Common Market nations and

other free nations and rejoin the leadership of all free economies toward freer and expanding trade and rapid development of undeveloped resources, as a natural concomitant of expanding trade and of its repercussions on private lending and investment.

This course would help us reduce the crushing immensity of Federal expenditures. It would reduce the needs for military spending. It could bring an end to the costly policies of farm price-support and of stockpiling. It would make fiscal surplus and debt reduction easily achievable and eliminate doubts of the integrity and reliability of the dollar. At the same time, it would permit reduction of taxes, permitting the citizens to retain more of their earnings as savings, available for useful investment here and abroad.

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We must never belittle the importance to Americans, present and future, and to the World, of unshakeable integrity and reliability of the dollar.

We cannot have economic expansion without liquid savings to finance it. We will not have liquid savings unless people trust the stable buying power of the currency enough to leave their unspent earnings in currency or accounts or instruments payable in it. So we will have economic expansion only if we maintain the trustworthiness of the value of the dollar.

If we let the value of the dollar slide, the aged who rely on pensions and all who rely on fixed income will be robbed of the security that they have paid for out of lifelong savings and will be impoverished. Everybody will lose except the few who laid their bets against the honor and solvency of their Nation. Impoverishment of the people of solid morals and enrichment and exaltation of the amoral is an unfailing accompaniment of currency depreciation. In regimes of inflation, profiteers and ghouls boil to the top and set the standard for the nation.

A nation unable to maintain the integrity of its currency for reasons entirely beyond its control, such as a terrible war, may retain World sympathy and respect if it sets to work after the catastrophe to restore the integrity of the old currency or establish a new one and keep its integrity unchallengeable. A nation which prostitutes the integrity of its currency to extravagance and lacks the character to retrench, in times of peace and easy living, forfeits the respect of the World, including its own self-respect.

We must not do this thing to ourselves and our Nation.

We must keep in mind also the importance of the dollar and of its integrity to foreign nations and their citizens.

For a long time the major currencies of the World were redeemable in gold; and shipments of gold were used to balance deficits in a country's external balance of payments. However, because the English Pound Sterling enjoyed universal confidence, transfers of Sterling in account in London generally were acceptable for the purpose and were more often used.

During the two great Wars of this Century and the economic disturbances in the interim between them, redeemability of currencies in gold virtually disappeared, except that our Country maintained it in relation to foreign treasuries and central banks. The dollar succeeded the pound as the currency of account for transfers to balance imbalances between nations, except between the countries of the Sterling Bloc and between European countries and their colonial dependencies. So for many years foreign governments and central banks have maintained the reserves for their currencies and commitments principally in gold and dollars. And a vast amount of private foreign savings is kept in dollars, in U. S. banks, dollar loans, dollar bonds, and American stocks. We use these foreign funds to finance American business, and they are very useful to us.

Loss of World confidence in the dollar would cause foreigners to scramble out of their American balances and investments and cause foreign treasuries and central banks to convert dollar balances into gold or currencies that have established their trustworthiness. The first consequence would be that these funds would be subtracted from the total available to finance our economy. If inflated production costs within a wall of Protectionist devices should cause chronic U. S. trade deficits, to compound the strain, the international value of the dollar might well collapse. Then foreign treasuries, central banks, and individuals would be despoiled of part of the value of their dollar holdings. The dollar and the United States would be discredited.

This too we cannot permit.

The World needs a trustworthy currency of account — for balancing imbalances between nations, for a medium in which to carry official reserves and business and private savings, and for a medium for instruments of debt and credit. As the outstanding national economy, having survived the two Great Wars without inva-

sion or devastation, it is our logical role to provide this currency and maintain its integrity. We cannot permit ourselves to fail in this task.

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Destiny charges us with leadership of the enlightened nations toward freer and ultimately free trade and with scrupulous maintenance of the integrity of the dollar, as the World's basic currency. It is by accepting this charge that we will contribute most to development of the World's resources and wealth and to enlargement of freedom, welfare, compatibility, cooperation, and peace among its peoples — including Americans of present and future generations.